

Message Text

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ACTION NEA-16

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INFO AMEMBASSY JIDDA

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AMEMBASSY LONDON

AMEMBASSY PRAIS

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E.O. 11652: N/A

TAGS: ENRG, SA, FR, LE

SUBJECT: PRINCE SAUD ON NEW FRENCH DEAL, PRICES, PRODUCTION POLICY

REF: PARIS 600

SUMMARY: PRINCE SAUD AL-FAISAL, SAUDI ARABIAN DEPUTY OIL MINISTER, TOLD BEIRUT WEEKLY AL HAWADESS THAT COMPREHENSIVE NEW SAUDI-FRENCH ECONOMIC AGREEMENT HAS BEEN INITIALED AND THAT NEGOTIATIONS ON QUANTITY OIL INVOLVED MAY OCCUR NEXT YEAR. ALSO SAID "PRICE OF OIL MUST RISE SOONER OR LATER TO ITS TRUE LEVEL" BUT THAT RECENT ABRUPT LEAP IS HARMFUL DISCUSSED PRODUCTION POLICY. FOLLOWING BASED ON SUMMARY TRANSLATIONS OF HAWADESS INTERVIEW BY MIDDLE EAST ECONOMIC SURVEY (MEES) JUNE 21 AND THE ARAB WORLD, A BEIRUT NEWS DIGEST.

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1. FRENCH DEAL: ASKED ABOUT NEW 20-YEAR OIL DEAL WITH FRANCE, SAUD NOTED EXISTING THREE-YEAR OIL DEAL AND,

WITHOUT REVEALING DURATION OR DETAILS, SAID A MORE COMPREHENSIVE FRENCH-SAUDI ECONOMIC AGREEMENT HAS BEEN INITIALED BUT NOT RATIFIED. IT IS STILL UNDER ACTIVE CONSIDERATION AND NEGOTIATIONS ON THE AMOUNT OF OIL TO BE SUPPLIED FRANCE MAY TAKE PLACE IN 1975, HE SAID, EMPHASIZING THAT "IT IS NOT SIMPLY AN AGREEMENT FOR THE SALE OF OIL...BASIS THIS PACT IS INDUSTRIALIZATION". HE INDICATED FRENCH INVESTMENT ASSISTANCE INVOLVED BUT IGNORED A QUESTION ON WHETHER ARMS ARE INVOLVED. IN ANSWER QUESTIONS, SAUD SAID SAUDI-FRENCH RELATIONS ALWAYS EXCELLENT BASED ON "CERTAIN VIEW OF COMMUNITY OF INTERESTS", NEW PACT CEMENTS COMMON ECONOMIC INTERESTS: IF A NEW FRENCH GOVERNMENT ALTERED POLICY TOWARD ARABS AGREEMENT WOULD BE NULLIFIED BUT THIS NOT EXPECTED TO HAPPEN. (MEES AND ARAB WORLD)

2. OIL PRICES: "I BELIEVE THAT AN ABRUPT INCREASE IN CRUDE OIL PRICES IS HARMFUL TO THE CONSUMERS, FOR REASONS WHICH STEM FROM THE NATURE OF THE WORLD ECONOMY, PARTICULARLY THE ECONOMY OF FREE ENTERPRISE. ON THE OTHER HAND, THERE IS MUCH WASTE IN THE USE OF OIL TODAY, THIS BEING ONE OF THE PRINCIPLE REASONS FOR THE ENERGY CRISIS IN THE INDUSTRIALIZED COUNTRIES. THEY HAVE BEEN USING OIL IN ALL FIELDS, AS IF OIL SUPPLIES WERE INEXHAUSTIBLE. IN THE US THE ADMINISTRATION TRIED TO ORGANIZE CONSUMPTION BUT FAILED AND THE ENERGY CRISIS CONTINUES DESPITE THE LIFTING OF THE EMBARGO. I BELIEVE THAT THE MOST EFFECTIVE AND SIMPLEST WAY OF PREVENTING THE MISUSE OF OIL IS TO LET OIL PRICES REACH THEIR TRUE LEVEL SO THAT IT WILL ONLY BE PUT TO VITAL USES. I BELIEVE THAT THIS PRICE SHOULD BE DERIVED FROM THE COST OF ALTERNATIVE SOURCES OF ENERGY. THE MAIN COMPLAINT AGAINST THE NEW LEVEL OF OIL PRICES WAS THE ABRUPTNESS WITH WHICH THE INCREASE OCCURRED, SPANNING A SHORT PERIOD OF TIME, AND THIS IS UNDERSTANDABLE. BUT THE PRICE OF OIL MUST RISE SOONER OR LATER TO ITS TRUE LEVEL AND THIS, IN THE FINAL ANALYSIS, IS NOT HARMFUL TO THE CONSUMER BUT IS IN HIS BEST INTEREST."

3. (MEES) OIL PRODUCTION POLICY: "THERE ARE MANY FACTORS WHICH INFLUENCE THE GROWTH IN PRODUCTION - ECONOMIC, FINANCIAL, UNCLASSIFIED UNCLASSIFIED

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POLITICAL AND INTERNATIONAL. THE MAIN CONSIDERATION, NATURALLY, IS THE STATE'S NEEDS IN ITS PURSUIT OF DEVELOPMENT AND INDUSTRIALIZATION. THE "MONETARY SURPLUSES" THHAT ARE CONTINUALLY BEING REFERRED TO ARE MERELY ESTIMATES WHICH ASSUME THAT NEEDS AND TARGETS ARE STATIC, AND FAIL TO TAKE INTO ACCOUNT THE IMPORTANT FACTOR OF RISING EXPECTATIONS FOR MORE PROJECTS. ON THE OTHER HAND, I BELIEVE THAT SAUDI ARABIA'S POSITION AS ONE OF THE WORLD'S MAIN SUPPLIERS OF CRUDE PLACES ITS PRODUCTION AND PRICING POLICY UNDER TWO CONSTRAINTS. THE FIRST IS ITS OWN SHORT,

MEDIUM AND LONG-TERM NEEDS, AND THE SECOND IS THE NEEDS OF THE WORLD ECONOMY. OIL REPRESENTS ALMOST A QUARTER OF WORLD TRADE, AND IS CONTINUOUSLY INCREASING ITS SHARE OF THIS TRADE. THEREFORE ANY CHANGE IN PRODUCTION OR PRICING POLICIES WILL HAVE A CONSIDERABLE INFLUENCE ON WORLD TRADE, AND THE REPERCUSSIONS OF THIS WILL MAKE THEMSELVES FELT ON THE CONSUMERS AS WELL AS ON THE KINGDOM ITSELF.

"THE PRODUCTION FORMULA CANNOT TAKE INTERNAL NEEDS INTO ACCOUNT ALONE AND IGNORE SAUDI ARABIA'S POSITION IN THE RESPONSIBILITIES TO THE WORLD ECONOMY. THERE ARE MANY COMPLEX FACTORS IN THE PRODUCTION FORMULA, AND WE CANNOT STRESS SOME OF THESE FACTORS AT THE EXPENSE OF THE OTHERS."
(MEES).
GODLEY

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